THE CITY OF SAN DIEGO

MANAGER'S REPORT

DATE ISSUED: January 14, 2004 REPORT NO. 04-009

ATTENTION: Honorable Chair and Members of the Land Use and Housing Committee Docket of January 21, 2004

SUBJECT: Redevelopment Agency Low and Moderate Income Housing Set-Aside Percentage

SUMMARY:

Issue - Should the Land Use and Housing Committee consider raising the percentage of Redevelopment Agency tax increment that is set aside for low and moderate income housing?

Manager's Recommendation:

Centre City Development Corporation (CCDC) and Southeastern Economic Development Corporation (SEDC) - That the Land Use and Housing Committee not recommend allocating additional monies from the 80% tax increment revenue to the low and moderate income housing fund at this time from redevelopment project areas administered by CCDC and SEDC.

Redevelopment Division - That the Land Use and Housing Committee recommend to the Redevelopment Agency that the annual affordable housing set-aside percentage of tax increment for the redevelopment project areas administered by the City Redevelopment Division be increased from 20% to 25% starting Fiscal Year 2005 (to begin on July 1, 2004), to the extent possible after considering revenue flows and existing debt obligations.

Other Recommendations - On October 22, 2003, the Budget/Finance Committee of CCDC considered this issue and recommended the following: continue to spend the $55 million of funds committed to the Affordable Housing Notice of Funding

Availability (NOFA); use the increased 20% tax increment stream for additional funds for the NOFA; CCDC is not in a position to allocate any of the 80% tax increment revenue at this time; and to annually review CCDC's finances.

On January 7, 2004, the SEDC Board of Directors unanimously approved staff's recommendation to recommend to the San Diego City Council Land Use and Housing Committee (LU&H) denial of an increase to the housing set-aside from 20% to 25%. The increase would adversely affect the Corporation's ability to: (1) continue affordable housing projects in the southeastern San Diego community; (2) future bonding capacity; (3) limit the amount of discretionary funds which are often utilized for affordable housing; and (4) existing debt obligation. It should be noted that while the SEDC Board of Directors does not support an increase in the housing set-aside due to the negative impact it would have on the Corporation, the Board is a *strong* supporter of affordable housing as evidenced by the housing that has been and continues to be produced.

Fiscal Impact - CCDC and SEDC - None with the Manager's recommendation. Any modification to the existing allocation of tax increment revenues in the next several years will inhibit the ability to meet existing commitments, impact bond ratings, decrease bonding capacity and increase the cost of bonding.

Fiscal Impact - Redevelopment Division - Providing that existing debt obligations are covered, an additional five percent of the revenues received from tax increment in the Division's ten redevelopment project areas would be set aside in the Low and Moderate Income Housing Fund (LMIHF) starting next fiscal year (FY 05), to be used exclusively for affordable housing projects.

Environmental Impact - This activity is not a "project" and is therefore exempt from CEQA pursuant to the CEQA Guidelines Section 15060 (c) (3).

BACKGROUND:

On December 3, 2003, the Land Use and Housing Committee discussed the issue of increasing the Redevelopment Agency's 20% required housing set-aside percentage for the production of affordable housing.

The discussion and staff report provided information on the Agency's affordable housing revenues, the number of units completed, the expenditures incurred, and the status of the $55 million NOFA program (approximately $12 million is committed to date).

DISCUSSION:

The Affordable Housing Task Force recommended increasing the amount of tax increment set aside for low and moderate income housing. The City Manager's response substantiated the fact that much of the 80% tax increment has already been committed or earmarked for priority development projects, and an increase in the housing set-aside percentage could limit bonding capacity and increase costs to carry out such projects. CCDC estimates that over $180 million of capital improvement projects committed will need to be funded from tax increment growth. SEDC estimates over $12 million of capital improvement projects require funding. The City's Redevelopment Division houses newer project areas with fewer outstanding debt commitments.

The information that follows identifies the bonding and financial implications that must be considered before raising the 20% housing set-aside of tax increment.

CCDC and SEDC Bonding Implications:

- Existing Bondholders have a 1st Lien priority on the full 80% revenue, irrespective of tax increment growth. Therefore, any additional allocation to the 20% LMIHF must be subordinate to all debt service on outstanding bonds (totaling $270 million for CCDC and $27 million for SEDC).

- Bond Capacity on all future issues will be reduced.

- Bond Ratings on all future issues may be lower.
(New bonds will be required to be subordinate to all previous bonds since they will no longer be issued with a pledge of 80% of the tax increment).

- The ability to obtain Bond Insurance will be reduced. If attainable, cost would increase.

- A reduced bond rating will increase the cost of all new money (approximately ½%).

- On $100 million in bonds (estimated amount to be issued in the next five years) ½% would cost the Agency approximately $10 million in interest payments.

Redevelopment Division Bonding Implications:

Because existing bondholders already have a first priority lien on the Division's non-low/mod (80%) revenue, such debt service obligation would need to be paid before any additional allocation to the LMIHF from the non-low/mod funds could be done. In addition, it is always a possibility, regardless of the 80%-20% or 75%-25% split, that bond capacity and ability to obtain bond insurance on future issues may be reduced or be more expensive while bond ratings could also be lower.

CCDC and SEDC - Financial Implications:

The state Educational Revenue Augmentation Fund (ERAF) has reduced the Agency's tax increment revenues by approximately 5% (all from the 80% revenues). Next year may be higher.

CCDC payments to taxing entities pursuant to tax sharing agreements have recently increased from 8% of tax increment to approximately 13%. SEDC pays 20% to the taxing entities.

The ability to finance the following projects will be jeopardized and more costly:

CCDC

- An Agency Ballpark obligation (MOU) - $15-$20 million.
- Downtown Main Library - $30 million.
- Pedestrian Bridge at Park Boulevard and Harbor Drive - $10-$15 million.
- North Embarcadero Public Improvements- $75 million.
- Public Parking Facility at 7th & Market - $20-$25 million.
- Public Parks for Downtown Community Plan - $20-$25 million.
- Downtown Public Improvements - $10-$15 million.

SEDC

- Market Creek Plaza Public Improvements - $5 million.
- Imperial Marketplace Public Improvements - $4 million.
- Southcrest 252 Corridor - $3 million.

Redevelopment Division - Financial Implications:

State Educational Revenue Augmentation Fund (ERAF) payments, which come out of the non-low/mod fund (80% money), are currently approximately 5% of tax increment. It is also possible to pay the ERAF obligation through the LMIHF. The amount of the ERAF obligation could change in the coming year as could payments to taxing entities pursuant to tax sharing agreements. In addition, developers in three project areas (San Ysidro, Naval Training Center and College Grove) have a first priority lien on non-low/mod funds. Any additional funds set aside into the LMIHF would have to be contingent upon first making the above payments.

CONCLUSION:

CCDC and SEDC - Growth in overall tax increment will occur over the next several years due to successful redevelopment programs. The increased 80% tax increment revenues have been programmed to accomplish needs and commitments as described above in implementing the respective redevelopment plans. Any modification to the existing allocation of tax increment revenues in the next several years will inhibit the ability to meet existing commitments, impact bond ratings, decrease bonding capacity and increase the cost of bonding.

Additional affordable housing funding should be derived from the growth of the 20% tax increment set-aside after the NOFA funds are expended.

Redevelopment Division - Although the Division's ten project areas have existing bond obligations and tax increment overall will be increasing in the future, it is recommended that, after maintaining debt service on existing obligations, the amount of tax increment set aside for affordable housing be increased to 25% in fiscal year 2005, as revenues and obligations allow, in order to provide additional resources for low/mod housing.

Respectfully submitted,

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